TFSA Investors: Should You Buy Suncor (TSX:SU) Stock After the Dip?

Description

Bargain hunters are combing through the recent wreckage in the TSX Index in the hopes of finding top-quality companies that might be trading at attractive valuations.

Let's take a look at **Suncor** (TSX:SU)(NYSE:SU) to see if Canada's largest integrated energy company deserves to be on your buy list right now.

Market outlook

World oil prices enjoyed a huge rally from the summer of 2017 through early October this year, but a recent pullback has investors wondering which way things are headed in 2019. Today WTI trades at US$67 per barrel, which is down from the early October high of US$76, but still well above the US$54 it fetched at this time last year.

The recent dip might be a surprise to followers of the oil market as U.S. sanctions against Iran are about to begin. In addition, Venezuela's production is falling, and there is some concern as to whether Saudi Arabia will be willing to crank up production to offset any shortfalls.

For the moment, the market appears to be taking a wait-and-see approach.

Earnings and growth

Suncor generated funds from operations of $2.86 billion in Q2 2018 compared to $1.63 billion in the same period last year. Net earnings more than doubled to $972 million from $435 million.

The company completed two major projects in late 2017, and those facilities are ramping up to capacity production ahead of schedule. The Fort Hills oil sands operation and the Hebron offshore development are hallmark assets and the switch from construction to output should free up significant capital for ongoing dividend increases.

Suncor took advantage of the downturn to boost its interest in several partnerships, including Syncrude and Fort Hills. The big investments appeared brave when WTI oil was below US$40 per barrel but are now paying dividends.

Diversified assets

Suncor's four refineries and more than 1,500 Petro-Canada retail stations provided a nice revenue hedge during the downturn and the strong balance sheet enable Suncor to pick up distressed assets at attractive prices. This is why the stock held up reasonably well during the downturn.

Dividends

Suncor raised its dividend by 12.5% this year and investors should see another healthy increase in 2019, given the strong cash flow and ongoing support in the oil market. The stock provides a yield of 3.2%.

Should you buy?

Suncor currently trades at $44.50 per share, compared to $55 in July. The recent dip in oil prices is probably nearing a bottom, and any sign of greater-than-expected supply issues in the coming months could send global oil prices soaring through 2019.

If you are a long-term oil bull, Suncor deserves to be on your TFSA radar today.

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